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REMARKS

Attached is transcript of McMahon's remarks to the Air War College. [Redacted] says McMahon was a big hit. There are two gaps due to equipment problems.

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DDCI Speech to Air War College

(Air War College equipment malfunctioned; gap of 2 to 5 mins)

...well we did notice that Khrushchev spent a great deal of time in building up the Soviet Union as a strategic power and he wanted to be second to none in strategic nuclear weapons. Brezhnev came along; he was quite content to keep those programs going, but also realized that their conventional forces needed a lot to be desired, that they couldn't reach out elsewhere in the world to expand their interests, as well as to protect their interests. So he put a great deal of money and effort in the conventional forces. And today we have our friend Andropov whose quite content to see both continued to be enlarged.

To give you a dimension, the Soviet Union has quite methodically over the past 10 years spent twice as much as the United States of their gross national product in defense -- about one-eighth of their GNP goes to defense if you give some slop for error in those estimates. The bottom line is that it's an awesome commitment to their military program. We see the Soviets continue to expand and to cheat on agreements which we have with them. Every now and then a new radar system appears within the bowels of the Soviet Union, that even if you're the kind of sympathizer you'll say has to have something

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to do with battle management and we realize that. I think we realize more after the Korean incident that we're dealing with an adversary who's quite content to remain an adversary.

They're an adversary that has never enjoyed the fruits of the Roman Empire. They suffered 250 years under Mongol rule and they really don't think like we do. In spite of detente and in spite of words, the Soviet is a different individual

(equipment problems; gap of 2 to 3 minutes)

a thousand tons of military supplies a year, MIG-23's, MI-24 helicopters, frigates, patrol boats, you name it. And of course then we see their efforts in Nicaragua which is causing all of us a fit. These bases, so to speak, are indeed a threat not only to the United States but to our interests in the Panama Canal. Concerning the men over in Vietnam, we see a resurgence in their interest in Cameron Bay and in what the leverage that gives them over that end of the Indian Ocean.

So the Soviet Union is not at all asleep and keeps moving out on all fronts. We sit and marvel at their commitment to this effort and what this does to their economy. But of course with their little value in the individual and the enjoyments for individual, they are able to force everyone to take up another notch as they commit their funds to their military effort.

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We do see an interesting move on the part of Andropov. In the last few months he has diverted supplies which would go into the size of the military procurement program and has taken those metals, those funds, and dumped them into agriculture. So he's trying to build up the agricultural capability of the Soviet Union.

Against this backdrop of worry in the Soviet effort, we look around and see the entire Third World going to pot. The Third World some eight years ago owed \$55 billion dollars. Today the Third World owes \$610 billion dollars. Now that bothers us from many standpoints.

There are a lot not-so-smart American bankers who are up to their armpits in hock with those investments and that has a great deal to do with our loan economy. We have to worry about that really from a national security standpoint. But look what it does to those nations and how susceptible it makes those nations to unrest and of course we do know that the Soviets and the Communists always seize upon unrest wherever it may be.

We have the drop in the price of oil, and what that is doing to those nations that are supported by the oil producers? If you look at the Gulf States, a good many of them live off the Saudis. A great deal of the support and development going to those countries came out of oil profits. The Saudis right now are suffering, if you can believe it. They have a cash flow problem because of the price of oil and,

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as a result, they're withdrawing their commitments and funding support to those Gulf States. They're becoming very uneasy. It has side effects in places like Egypt which has \$2 billion dollars a year coming into Egypt from Egyptians who are working in the Gulf States on these development projects whether they're educational or technicians or what-have-you.

So there's a compounding effect there considerably. We are called upon to move, not only following the military activities of countries now, but also we're in very heavily the economic side of it. Coming out of that economic part of it is what we call the civil technologies.

United States for years owned the foreign markets anyplace. We could always sell; we usually did. That's no longer the case.

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Over in Europe we have the same problem with the Europeans who are now competitive to us in many fields. You can say, "Don't worry about it because the United States can always get smarter and can always have a better device." And there are some in the United States that believe that. The difference is we have a different system. We have a nation that doesn't subsidize the development of civil products. We don't have a nation like France that puts \$1.3 billion dollars into the R&D of the airbus, another \$1.2 billion to market it, and to subsidize the production of that 400 million dollars alone, and on top of that, uses diplomatic pressure to make sure that countries wanting trade with France buy the airbus instead of Boeing. You look at any industry in the United States and you can see it threatened throughout Europe and Japan because when a U.S. businessman deals with those countries he's not dealing with another company, he's dealing with the government, and the government banks in back of it. That's an unfair proposition. Some day soon the United States Government is going to have to wake up to how business is done overseas and make sure that the United States remains competitive in those markets by taking a look at some outdated

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things such as our antitrust laws or what-have-you. If the U.S. companies can't get together and pool their R&D assets and go and threaten the foreign companies around the world with that clout -- we're going to be in deep trouble. And that is a considerable national security problem.

If you talk about technologies you have to talk about technology transfer. Let me assure you it is the most awesome loss that the United States has. The Soviet Union is running a program through the KGB to get those things that they can't get openly. Granted the United States is an open society, and that's why you and I have the jobs that we do to keep it that way. But we also are a huge department store for foreign countries to acquire anything they want, even our most secret stuff.

[REDACTED] the success that the Soviets are having in acquiring technology in the United States; and it is virtually unlimited. They had the plans to the C5A before it flew. [REDACTED]

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I don't care whether it's ASW or any military device there is, chances are the design was made in the United States. They're getting it through subsidiaries overseas. They're getting it from the countries that we ship this stuff to overseas and they're getting it in Silicon Valley at will.

Two years ago [redacted]

[redacted] trying to get Europe to realize how our pockets are being picked, as well as their own, by the Soviets. We had tried through the Co Com trade agreements but trying to convince Europeans not to trade with the East is running upstream. The approach we took was that this was a counterintelligence problem, and a problem that they weren't getting paid for because their technology was being stolen. On that basis they began to pay attention and you've seen the record now of over a hundred Soviets have been thrown out of European countries because of their intelligence activities which are tied to their technology transfer.

The Soviets operate [redacted] companies in Europe which permit them to procure stuff and ship it to the Soviet Union. [redacted]

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The added problem with tech transfer is not only keeping the Soviets on top, causing us to fight our own weapon systems, but their tremendous savings in time and billions of dollars that they have in their R&D efforts because they can get it from us.

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Just the other day I complained to Jim Beggs, the Administrator of NASA, about this -- the fact that as NASA moves towards the space platform, which it looks like they're going to do, it's going to be fair game for the Soviets. He

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Our highest technology will go into that, which is another beef I have. The Pentagon, and the Air Force, in particular, sit very quiet while NASA runs about to do this. Why should we spend \$40 to \$60 billion dollars to have the biggest drug store in the sky and not have a weapons system up there to control it? Why isn't the Air Force standing tall and

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arguing like hell to get a chunk of that action? And the problem with it, mind you, quite apart from roles and missions, is that there won't be enough funds to go around to do other things.

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Well, you've just witnessed a catharsis on my part, and it felt pretty good, but it is a beef I have.

If you get over the tech transfer issue -- which is, as I say, an enormous one -- we do have to worry about other simple accounts, such as terrorism. Terrorism has taken a different dimension in the last few years. It's focused on Americans. Fortunately, this past year some of the leading terrorist groups have been rather decimated. I like to think

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it has a lot to do with our intelligence and attention to the issue, and a great deal of it is due to our encouragement of our European colleagues to do something about it. They've put a pretty good squeeze on their Red Army faction in Germany and the Red Brigade in Italy. The Armenian ASALA troops still give us a fit out of Turkey. But most of the large organizations have been pretty well-handled.

The problem though persists and it has a different dimension which gives us trouble.

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Now the terrorist groups are very small, very intimate, almost a family-type organization, so it's hard to penetrate and hard to get a handle on what they're up to. I think that the problems in Lebanon have slowed down the PLO and diverted to Syrians, but we anticipate that to pick up. We have three formidable enemies who are trying to knock off Americans as quickly as they can -- the Syrians, the Iranians, and the Libyans, and so that takes an effort.

As you know the President has decided he wants to cut off the flow of narcotics into the United States. No easy chore. It's one of the biggest industries that the United States has -- close to \$100 billion dollars a year change hands in the United States on narcotics.

They have aircraft; they have ships; they have access to dry docks where huge merchant ships can be configured with secret compartments on the keel to carry narcotics. Frogmen service them when they're in port and unload them when they come in the U.S. They come in from containers from Europe and it's pretty hard to get a handle on it.

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The awesome flow

of drugs in from South America is just unreal, and it's pretty hard to see how you can turn it off because there are so many avenues and you knock off one trafficker and you pick up

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another. Many of the governments, at the highest levels, are involved and they can "cooperate" all in the wrong places. When you're dealing with that kind of dollars you can develop a considerable amount of capability.

But we're devoting our attention to other than these small interdiction type activities; we are going after the money. That dirty money is getting laundered. It's getting laundered through the best of establishments in Europe, in the islands, and in the United States. If we can nail that kind of process then I think we can really begin to get them where it hurts, because if you can stop that hundred billion dollars from ending up as shopping centers, apartment buildings, and churches throughout the United States, then you might be able to do something about it.

When we run out of things like that to do, of course, we get wrapped up in covert action.

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were going to do but the analysts kept saying they're going to get bogged down and if they do it, it's a dumb thing to do. Well, sure enough they went ahead and did it and they got bogged down. Well, you could say we had an intelligence failure because we didn't predict that they were going in -- eventually we did predict they were going in -- but long term out, we didn't see it simply because while we read all the indicators no one would believe they would be that stupid! At any rate, [REDACTED]

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[REDACTED]

an organization that has been cut considerably it's pretty tough getting back up to speed.

If you look at the intelligence community across the board in the last 10 years, it was cut 40 percent in dollars and 50 percent in manpower. That's a tremendous loss to any organization. But we are building back. The build-back actually started with Congress. I have to give the Devil its due. They felt that the intelligence organizations had been cut back and they actually overrode the President's budget by giving more funds and people back into the intelligence programs and earmarked them for intelligence so that they couldn't be used in any other place.

Then when the new administration came in, they, of course, grabbed the ball and pumped it up considerably. So we enjoy a growth rate now of "dollar-wise" around 18 to 20

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percent depending on which organization you're talking about in the Intelligence Community. We're not where we'd like to be, but we're a heck of a lot better than what we were two years ago.

As I mention Congress, let me say that

it's probably the greatest

protection the intelligence organizations have. Had we not had

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The Senate has been most responsible. I've never felt that I was exposing intelligence which would get dumped into the WASHINGTON POST or the NEW YORK TIMES when I dealt with the Senate. They have handled the intelligence information far better than the Executive.

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Fortunately, the Senate is with us in trying to do that. I'm not talking about Congressmen that have a valid difference of opinion, that's what makes horseraces. But it

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[REDACTED] The debate should take place within the confines of the Congress and the White House. But I

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One thing they don't realize is that when it comes to covert action, not many people in CIA like it; not many Americans like it. It's un-American. You know we're apple pie and Chevrolets and baseball and we like to let it all hang out. Something that's subtle or devious and you're doing what you don't say, doesn't strike the fancy of many people. But it's a mission that we have to play, and we salute and carry it out. We don't do that with a great deal of joy, but it's there and in this day's world if we're not, then we're going to be in trouble. I think it's a valid tool to have in our arsenal,

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while it ought to be used with discretion, it sure as hell has to be used sometimes, particularly to play in the arenas that we play.

My 45-minutes are up, we'll take a break Gen. Hodges, and return for questions and answers.